

## Message Text

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SUBJ: SWISS FINANCIAL AND ECONOMIC DEVELOPMENTS: WEEK OF AUG 3-9

1. SUMMARY: A VARIETY OF INFLUENCES PRODUCED AN ACTIVE FOREIGN EXCHANGE MARKET AND CONSIDERABLE FLUCTUATION OF THE SPOT DOLLAR THIS WEEK, BUT THE DOLLAR ENDED THE WEEK ONLY SLIGHTLY LOWER THAN IT BEGAN. BANK LIQUIDITY WAS A BIT TIGHT IN THE EARLY PART OF THE WEEK BUT RETURNED TO NORMAL BY FRIDAY. THE CONFEDERATION IS PLACING SF 300 MILLION IN NOTES WITH THE BANKS AND OTHER INSTITUTIONAL INVESTORS. IN THE FIRST SIX MONTHS OF 1975, THE BALANCE SHEET TOTALS OF THE THREE LARGEST COMMERCIAL BANKS GREW

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AS A RESULT OF INCREASED PERSONAL SAVINGS. THE SWISS BALANCE OF

PAYMENTS ON CURRENT ACCOUNT REGISTERED A SF 510 MILLION SURPLUS IN 1974. BOTH WHOLESALE AND CONSUMER PRICES FELL SLIGHTLY IN JULY. STATISTICS FOR JUNE SHOW NO SIGNS OF RECOVERY IN THE DEPRESSED CONSTRUCTION AND WATCH INDUSTRIES.

#### FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: THE SPOT DOLLAR FLUCTUATED DOWNWARD IN ACTIVE TRADING THEN RECOVERED MOST OF THE LOSS UNDER THE CONFLICTING INFLUENCES OF PROFIT TAKING, A RELATIVELY TIGHT SWISS MONEY MARKET IN THE EARLY PART OF THE WEEK, AND THE INCREASE IN US WHOLESALE PRICES ON ONE HAND, AND YET ANOTHER RISE IN US SHORT-TERM INTEREST RATES ON THE OTHER. GROWING INTEREST RATE DIFFERENTIALS PRODUCED A MARKED WIDENING OF FORWARD DISCOUNT RATES. DESPITE INTERVENTION BY THE SWISS NATIONAL BANK (SNB), THE SF REMAINED STRONG AGAINST THE D MARK. GOLD PRICES EASED LOWER IN A VERY QUIET MARKET. RATES AS FOLLOWS:

	8/4 (OPEN)	8/8 (CLOSE)
SPOT DOLLAR	SF 2.7050	SF 2.6900
DISCOUNTS		
ONE MONTH	- 2.6	- 3.7
3 MONTHS	- 2.7	- 3.4
6 MONTHS	- 2.6	- 3.3
SF/DM	SF 105.12	SF 104.26
GOLD	\$166.25	\$163.50

3. MONEY AND CAPITAL MARKETS: FOLLOWING THE END-OF-JULY POSITIONING OF THE COMMERCIAL BANKS, THE MONEY MARKET WAS A BIT TIGHTER THAN USUAL WITH CALL MONEY RATES UP TO 2.0 PERCENT IN THE EARLY PART OF THE WEEK. BY FRIDAY, AUG 8, HOWEVER, THE LIQUIDITY SITUATION WAS RELATIVELY NORMAL AND THE CALL MONEY RATE WAS BACK TO 1.0 PERCENT. INSTEAD OF THE SF 200 TO SF 250 MILLION IN NEW CONFEDERATION NOTES REPORTED IN BERN 3003, THE FEDERAL COUNCIL HAS DECIDED TO ISSUE SF 300 MILLION IN 6 YEAR, 6.5 PERCENT NOTES TO BE SOLD AT PAR. THIS OFFERING WILL BE MADE MAINLY TO BANKS AND OTHER INSTITUTIONAL INVESTORS. PRICES WERE FAIRLY STEADY ON THE SWISS STOCK EXCHANGES AND THE SKA INDEX WAS 187.6 (END 1959 EQUALS 100) ON AUG 8. THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS CONTINUED ITS STEADY DECLINE BY SLIPPING FROM 6.43 PERCENT ON JUL 31 TO 6.37 PERCENT ON AUG 8.

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4. BANKS CONTINUE TO PROSPER: BALANCE SHEETS ISSUED AT THE END OF THE SECOND QUARTER BY THE THREE MAJOR COMMERCIAL BANKS SHOW A STEADY GROWTH DESPITE THE RECESSION. IN THE SIX MONTHS SINCE THE END OF 1974, BALANCE SHEET TOTALS INCREASED AS FOLLOWS: SWISS CREDIT BANKS, 10.5 PERCENT; SWISS BANK CORPORATION, 9.8 PERCENT; AND UNION BANK, 7.1 PERCENT. THE MAJOR REASON FOR THE BALANCE SHEET GROWTH IS A RISE IN THE PROPENSITY TO SAVE ON THE PART OF THE AVERAGE SWISS CONSUMER. WITH WAGES STILL INCREASING FASTER

THAN THE COST OF LIVING AND UNEMPLOYMENT NOT AS SERIOUS A PROBLEM AS IN OTHER WESTERN EUROPEAN COUNTRIES, PERSONAL INCOME REMAINS HIGH. THE DECLINE IN RETAIL SALES, HOWEVER, INDICATES THE AVERAGE SWISS IS WORRIED ABOUT THE FUTURE AND THIS IS REFLECTED IN A STEADY INCREASE IN SAVINGS ACCOUNTS. ALL IS NOT ROSY FOR THE BIG BANKS, HOWEVER, SINCE THEY ARE EXPERIENCING DIFFICULTY IN RELENDING THESE NEWLY ACQUIRED FUNDS. IN THE FIRST SIX MONTHS OF 1975, TOTAL CREDIT ISSUED BY THE MAJOR BANKS FELL ALMOST ONE PERCENT.

5. BALANCE OF PAYMENTS FOR 1974; THE GOVERNMENT'S ECONOMIC RESEARCH COMMISSION HAS JUST RELEASED ITS OFFICIAL ESTIMATES OF SWITZERLAND'S BALANCE OF PAYMENTS ON CURRENT ACCOUNT FOR 1974, WHICH CLOSED WITH A SURPLUS OF SF 150 MILLION. (BECAUSE OF SWISS LAWS ON COMMERCIAL AND BANKING SECRECY, THE GOVERNMENT IS UNABLE TO PREPARE EVEN ESTIMATES OF THE CAPITAL ACCOUNT.) ALTHOUGH THE SURPLUS WAS LOWER THAN IN 1973, ANY SURPLUS AT ALL SHOULD BE CONSIDERED A GOOD PERFORMANCE SINCE MANY PEOPLE THOUGHT THE HIGH COST OF PETROLEUM WOULD PRODUCE A CURRENT ACCOUNT DEFICIT IN 1974. WHILE THE TRADE BALANCE DID DETERIORATE AS A RESULT OF HIGHER OUTLAYS FOR OIL EXPORTS, THE SHARP RISE IN INVESTMENT INCOME KEPT THE CURRENT ACCOUNT IN THE BLACK. THE FOLLOWING IS A CONDENSED FORM OF THE COMMISSION'S ESTIMATES (IN MILLIONS OF SWISS FRANCS):

	CHANGE	
1974	OVER 1973	
TRADE BALANCE	- 7,580	- 940
TOURISM	2,530	- 110
WAGES OF FOREIGN		
BORDER CROSSERS	- 2,170	- 320
INVESTMENT INCOME	5,920	1,180
OTHER	3,550	- 240
CURRENT-ACCOUNT BALANCE		

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OF PAYMENTS 510 - 380

ECONOMIC

6. WHOLESALE AND CONSUMER PRICES DECLINE IN JULY: THE WHOLESALE PRICE INDEX FOR JULY WAS 147.7 (1963 EQUALS 100), WHICH IS 0.1 PERCENT LOWER THAN JUNE AND 3.8 PERCENT BELOW JULY 1974. THE STEADY DECLINE IN WHOLESALE PRICES (JULY WAS THE EIGHTH MONTH IN A ROW THAT THE INDEX HAS REGISTERED A MONTHLY DROP) IS FINALLY HAVING AN EFFECT ON CONSUMER PRICES. THE CONSUMER PRICE INDEX FOR JULY WAS 163.4 (SEPT 1966 EQUALS 100), WHICH IS 0.2 PERCENT LESS THAN JUNE. THIS IS THE FIRST MONTHLY DECLINE SINCE APR 1974 AND IS DUE PRIMARILY TO REDUCTIONS IN THE COST OF CERTAIN FOOD ITEMS AND HEATING OIL. COMPARED WITH JULY 1974, THE CONSUMER INDEX WAS UP 7.4 PERCENT.

7. CONSTRUCTION AND WATCH INDUSTRIES STILL DEPRESSED: FIGURES FOR JUNE INDICATE THAT THE TWO OF THE MOST DEPRESSED INDUSTRIES IN SWITZERLAND, CONSTRUCTION AND WATCHES, ARE STILL SHOWING NO SIGNS OF RECOVERY. HOUSING PERMITS ISSUED IN JUNE TOTALED 1,679, A DROP OF 23.2 PERCENT FROM JUNE 1974 AND OF 53.4 PERCENT FROM JUNE 1973. CUMULATIVE FIGURES FOR THE FIRST SIX MONTHS OF 1975 SHOW SIMILAR DECLINES. WATCH EXPORTS IN JUNE WERE DOWN 19.4 PERCENT IN VALUE, AS COMPARED WITH A YEAR EARLIER, AND EXPORTS DURING THE FIRST SIX MONTHS WERE DOWN 18.0 PERCENT.  
ODELL

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